

## Message Text

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62/51

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

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R 290738Z JUN 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 4915

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C O R R E C T E D C O P Y - P A R A T H R E E

PASS AID

E.O. 11652: N.A.

TAGS: EAID, JA

SUBJ: CRITIQUE OF JAPANESE AID PROGRAM FOR ANNUAL DAC REVIEW

REF: TOKYO 8217

SUMMARY: EMBASSY BELIEVES MAJOR PROBLEM WITH GOJ AID PROGRAM IS QUESTION OF TERMS SOFTENING. FRANT ELEMENT CONTINUES TO FALL BOTH IN TOTAL ASSISTANCE PROGRAM AND IN DEVELOPMENT LOANS. CONTINUED DAC PRESSURE ON THIS POINT COULD BE HELPFUL IN PRESSING GOJ FINANCIAL AUTHORITIES TO INITIATE ACTION. MATTER OF GOJ IDEAS ON PROBLEM OF LDC'S INDEBTEDNESS SHOULD BE RAISED AND TIED INTO TERMS PROBLEM. VOLUME OF DEVELOPMENT ASSISTANCE SHOULD ALSO BE QUESTIONED.

WHILE GOJ MOVING IN RIGHT DIRECTION, RATE OF INCREASE NOT AS RAPID AS IT SHOULD BE IN RELATION TO SIZE OF ECONOMY AND IMPORTANCE JAPAN'S RELATIONS WITH LDC'S. ON UNTYING, GOJ HAS LIMITED OFFICIAL USE

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TAKEN COMMENDABLE STEPS BUT POLICY OF DEALING WITH MATTER

ON CASE-BY-CASE BASIS IS CONFUSING AND IRRITATING TO LDC'S. UNIFORM PRINCIPLES SHOULD BE ADOPTED. IN AID TO AGRICULTURAL AND SOCIAL SECTORS, GOJ COULD BE PRESSED TO MARK THEM FOR PRIORITY ATTENTION. IN RESPECT RICE AID, PRIME MINISTER HAS ANNOUNCED THAT LIMITATIONS ON DOMESTIC RICE PRODUCTION WILL BE LIFTED. IMPACT OF THIS DECISION ON LDC'S COULD BE EXPLORED. END SUMMARY.

1. REFTEL CARRIES STATISTICAL SUMMARY OF GOJ'S FINANCIAL FLOWS TO DEVELOPING WORLD. THIS MESSAGE FORWARDS HIGHLIGHTS OF GOJ MEMORANDUM TO OECD/DAC AND EMBASSY CRITIQUE OF MEMORANDUM FOR USE OF USG AGENCIES IN PREPARING FOR ANNUAL AID REVIEW OF JAPAN IN JULY.

2. GOJ MEMORANDUM HIGHLIGHTS FOLLOWING POSITIVE ASPECTS JAPAN'S FINANCIAL FLOWS: 27 PERCENT INCREASE IN TOTAL FLOWS; 20 PERCENT INCREASE IN OFFICIAL DEVELOPMENT ASSISTANCE; 51 PERCENT INCREASE IN GRANT AID; AID UNTYING IN SEVERAL INSTANCES; LOCAL COST FINANCING; EXPANSION OF IMPROVEMENT OF SOME ASPECTS OF TECHNICAL ASSISTANCE; 22 PERCENT INCREASE OF ODA TO MULTILATERAL AGENCIES, MEETING PEARSON COMMISSION RECOMMENDATION; AND EXPANSION OF GEOGRAPHIC DISTRIBUTION OF ODA. ON NEGATIVE SIDE, GOJ NOTES RATIO OF TOTAL FLOWS TO GNP DECLINED THREE POINTS TO 0.93 PERCENT AND RATIO OF ODA TO GNP DECLINED TWO POINTS TO 0.21. GRANT ELEMENT IN ODA HAS DECLINED.

3. TERMS. EMBASSY BELIEVES THAT MAJOR PROBLEM WITH GOJ IN AID PROGRAM IS QUESTION OF TERMS SOFTENING. FOR SECOND CONSECUTIVE YEAR GRANT ELEMENT IN TOTAL PROGRAM FELL, 61 PERCENT IN 1972 AS COMPARED TO 67 PERCENT IN 1970. IN ADDITION, IN 1972 GRANT ELEMENT IN LOANS FELL AS WELL, I.E., FROM 46 PERCENT TO 42 PERCENT. WITHIN GOJ, FONOFF HAS BEEN PRESSING HARD FOR EASING OF TERMS AND STANDARDIZATION OF TERMS, BUT WITHOUT SUCCESS SO FAR. CONTINUED DAC PRESSURE ON THIS POINT, LINKED WITH QUESTIONING ON GOJ'S VIEWS ON PROBLEM OF LDC'S INDEBTEDNESS, COULD BE HELPFUL IN GETTING GOJ FINANCIAL AUTHORITIES TO INITIATE ACTION ON THIS PROBLEM.

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4. VOLUME. VOLUME OF GOJ AID, IN EMBASSY'S VIEW ALSO SHOULD BE SUBJECT OF DAC SCRUTINY. ALTHOUGH VALUE OF GOJ AID HAS INCREASED SIGNIFICANTLY IN PAST TWO YEARS (REFTEL PARA 6) RATE OF INCREASE NOT SUFFICIENT EVEN TO MAINTAIN EXISTING LOW RATIO OF ODA TO GNP, LET ALONE TO MOVE TOWARD 0.70 PERCENT TARGET. WHILE GOJ AID HEAVILY CONCENTRATED IN EAST ASIA, JAPAN COULD BE QUESTIONED ON NEED FOR EXPANDING EFFORTS IN OTHER

GEOGRAPHICAL AREAS. EVEN WITHIN AREA, HOWEVER, AS INTERNATIONAL AID EFFORTS FOR INDOCHINESE STATES GET UNDERWAY, SUBSTANTIAL INCREASES IN BILATERAL JAPANESE AID COULD OCCUR. BANGLADESH IS ANOTHER POTENTIAL RECIPIENT OF INCREASED AID. IN ADDITION, THERE APPEAR TO BE OPPORTUNITIES FOR INTERNATIONAL FINANCIAL DEVELOPMENT INSTITUTIONS AND UN AGENCIES TO PRESS GOJ FOR LARGER AMOUNTS GRANT AND SOFT LOAN AID. QUESTIONING AT DAC MIGHT BE DIRECTED TOWARD THIS MATTER, EMPHASIZING SIZABLE AMOUNTS NEEDED RATHER THAN ACCEPTING GOJ'S ARGUMENT OF SATISFACTORY PERFORMANCE BASED ON SUBSTANTIAL PERCENTAGE INCREASES FROM PREVIOUS LOW BASES.

5. LDC'S INDEBTEDNESS. QUESTIONS COULD BE RAISED AGAIN AS TO JAPANESE IDEAS ON THIS PROBLEM. EMBASSY NOTES THAT GOJ REP TO OECD MINISTERIAL COUNCIL MEETING ON DEVELOPMENT COOPERATION WAS AMONG THOSE WHO URGED DAC AND OECD TO EXAMINE PROBLEM IN DEPT (OECD PARIS 16031). ON OTHER HAND, AS INDICATED ABOVE, GOJ TERMS FOR DEVELOPMENT LOANS REMAIN HARD WITH NO CLEAR INDICATION FROM GOJ AS TO THEIR POSSIBLE SOFTENING. EMBASSY ALSO NOTES THAT AT OECD EXPORT CREDITS GROUP MEETING IN MARCH (OECD PARIS 5196), GOJ REP APPARENTLY TOOK HARD LINE IN STATING THAT RESPONSIBILITY FOR INDEBTEDNESS LAY WITH DEBTOR LDC'S ALONE.

6. UNTYING. GOJ SHOULD BE COMMENDED FOR ITS PROGRESS IN UNTYING ITS ASSISTANCE TO SEVERAL COUNTRIES SINCE LAST MEETING. HOWEVER, UNTYING OF AID SOLELY ON CASE BY CASE BASIS HAS BEEN CONFUSING AND IRRITATING TO LDC'S. OBSTACLE TO ENUNCIATION OF POLICY BASED ON PRINCIPLE OF UNTYING IS THAT WHILE FONOFF AND MINISTRY FINANCE ARE FAVORABLY INCLINED TOWARD UNTIED AID, MINISTRY OF LIMITED OFFICIAL USE

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MRN: 1973TOKYO 008218 SEGMENT NUMBER: 000002 ERROR READING TEXT INDEX  
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